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Panel on Economic Development Meeting on 22 June 2015

Background brief on the logistics development in Hong Kong

Purpose

This paper provides background information on the logistics development and relevant issues in Hong Kong. It also summarizes the views and concerns expressed by Members when relevant issues were discussed at the Panel of Economic Development ("the Panel") and other occasions.

Background

2. Hong Kong, with its strategic location and comprehensive transport network, is a preferred transportation and logistics hub in Asia. Having a convenient multi-modal transport network and efficient transport infrastructure including the airport and port, Hong Kong enjoys the status of a free port, with good intellectual property protection as well as experienced professionals. These advantages have contributed to Hong Kong's development into a high value goods inventory management and regional distribution centre.
3. Logistics industry is one of the cornerstones of Hong Kong's economic development and has been providing many jobs in the local manpower market. The contribution of the logistics industry to Hong Kong economy in the past few years is as follows –

	2009	2010	2011	2012	2013
Value added at current prices (HK\$Mn)	54,800	82,500	67,700	67,100	67,900
Percentage share of value added to nominal GDP	3.5	4.7	3.6	3.3	3.2
Employment	196 600	190 700	190 500	183 200	187 800
Percentage share of employment to total employment	5.7	5.5	5.3	5.0	5.0

Source: Hong Kong Statistics, Census and Statistics Department

Development of logistics facilities in Kwai Tsing and Tuen Mun

Kwai Tsing

4. The long term development potential of logistics in Hong Kong is inevitably constrained by land resources, despite the forecast of a sustained moderate growth. To meet the demand from increasing container and cargo throughput, the Government committed to make available sites for the development of a logistics cluster in Kwai Tsing in the Policy Address for 2009-2010, 2010-2011 and 2011-2012. Through the disposal of long-term sites with tailor-made lease terms for logistics use, more land could be made available to meet the demand for modern logistics facilities and to attract the anchoring of third party logistics service providers ("3PLs")¹ in support of the logistics sector's switch to the high-end market segment.

¹ The 3PLs possess professional expertise knowledge to provide customized logistics services for the high value goods. Their presence and operation in Hong Kong will help enhance the edges of Hong Kong Port as the base for supply chain management.

5. Towards this direction, two sites in Tsing Yi with a total area of 4.8 hectares were released through open tender in 2010 and 2012 respectively for the development of modern logistics centres. In addition to warehousing service, modern logistics centres provide a range of high value-added services. They use advanced technologies such as electronic identification and radio frequency identification for handling and tracking the goods accurately. They are also equipped with automated facilities and tight security system for handling cargo movement in and out of the centres. In addition to another site of about 2.1 hectares in Tsing Yi, the Government had released three logistics sites with a total area of 6.9 hectares.

Tuen Mun

6. Members of the Hong Kong Logistics Development Council ("LOGSCOUNCIL") requested the Administration to identify suitable sites for logistics operations in the territory other than Kwai Tsing. The Administration subsequently conducted a site search exercise and found that Tuen Mun West which was generally zoned for industrial use had good potential for logistics development. With the Tuen Mun-Chek Lap Kok Link to be completed in phases to synchronize with the commissioning of the Hong Kong-Zhuhai-Macao Bridge ("HZMB")² and to meet local traffic demand, the travelling time between Tuen Mun and the airport will be reduced from 30 minutes to approximately 10 minutes. Moreover, the River Trade Terminal is located nearby and there can be synergy between the proposed logistics development and the river cargo-handling operation.

7. The Administration has reserved about 10 hectares of land in Tuen Mun West for the construction of modern logistics facilities, comprising a site of 3.5 hectares in Tuen Mun Area 49 and a site of 6.5 hectares in Tuen Mun Area 38. The relevant traffic impact assessment ("TIA") has been completed which confirms that subject to the implementation of the recommended mitigation measures, the proposed logistics development is feasible and would not cause unacceptable traffic impacts. The Administration has consulted the Tuen Mun District Council on the TIA results at its meeting on 3 March 2015. Subject to further discussion with the District Council members on the traffic issues and planning approval from the Town Planning Board on the proposed logistics development in Tuen Mun Area 49, the Administration plans to release this logistics site to the market before the end of 2015. The logistics site in Tuen

² The HZMB project was targeted for completion by end 2016 when it was planned. According to the Administration's latest information, the Joint Works Committee of the Three Governments ("JWC") has advised that it would be very difficult for the entire HZMB project to be completed by end 2016. JWC and the HZMB Authority will further conduct an in-depth and objective analysis on the programme of the project.

Mun Area 38 is being used as a temporary fill bank until the end of 2018 and the Administration will continue to keep in view the availability of this site for logistics use.

Proposed Lantau Logistics Park

8. In the 2003 Policy Address, the Administration announced its plan to build a modern Logistics Park ("LLP") on North Lantau Island as a designated facility for the provision of one-stop integrated logistics services and subsequently proposed to develop it at Siu Ho Wan on a site to be obtained by reclamation. During the examination of the Estimates of Expenditure 2015-2016, the Administration advised that there was no concrete development plan for LLP at the moment. Nonetheless, it would continue to identify other land suitable for logistics use in other areas, such as Hung Shui Kiu, and keep in view LLP's development.

Other initiatives

9. The Administration will continue to discuss with LOGSCOUNCIL on the implementation of various initiatives to promote e-logistics, enhance the industry's operation efficiency and encourage manpower training. For example, LOGSCOUNCIL has launched the SMe-plug Jumpstart Programme in March 2015 to sponsor about 100 logistics companies in the installation of the SMe-plug with a sum of \$3 million. The SMe-plug will assist logistics companies to get connected to large electronic platforms for freight handling and encourage the wider use of information technology by the industry.

Previous discussions

10. The Panel³ has discussed about the logistics development and relevant issues at its policy briefings held on 28 January 2013, 27 January 2014 and 2 February 2015 and the meeting on 27 June 2011. Their major views and concerns are summarized in the ensuing paragraphs.

Land for logistics industry

11. Members commented that basic logistics facilities such as open storage areas were important and thus the Administration should, as a long-term measure, formulate suitable land use policy and designate suitable land adjacent to ports and airports for logistics use. They suggested that the Administration should consider allocating sufficient land for maintenance and repair of diesel commercial vehicles engaged in logistics operations.

³ The Panel is formerly known as Panel on Economic Services.

12. Members also noted that the Chief Executive envisioned in his 2014 Policy Address the development in the artificial island constructed for HZMB's Hong Kong Boundary Crossing facilities and asked whether the Administration would include facilities in the artificial island to support the development of the logistics industry.

13. The Administration responded that it acknowledged that basic logistics facilities were important, but operators were divided as to the precise requirements of the industry. In this regard, the Development Bureau would take the lead in determining the land use planning for supporting the logistics industry.

14. Members expressed grave concern if the 10 hectares of land reserved in Tuen Mun West would be released by tender, as the case of Tsing Yi's logistics sites, the successful tenderer might put the land for high rentals which would be unaffordable by small and medium enterprises ("SMEs") and hence affecting their competitiveness. They also enquired if the Administration would draw reference from Singapore and Shanghai on constructing government warehouses for leasing to SMEs at reasonable rentals.

15. The Administration advised that in order to address the needs of the industry for more logistics sites, one of the options being explored by the Administration was the feasibility of developing a multi-storey car park principally for use by container trucks and medium/heavy goods vehicles, with the aim of freeing up sites currently used as open-air car parks for port backup uses, so as to enhance the land utilization around the Kwai Tsing Container Terminal.

Promoting logistics development in Hong Kong

16. Members observed that there was competition for lands between operators of conventional logistics services and value-added 3PLS, and asked about the action plan and timeframe for the Administration to assist the logistics sector to switch to the high-end market segment.

17. The Administration advised that Hong Kong was well-positioned to develop into a high-value goods inventory management and regional distribution centre, which was complemented by its advantages such as its geographical location, well-established entrepot with extensive intermodal transport network and trade connections, effective customs and legal system and so on. All these would be conducive to attracting the anchoring of 3PLs and leading brands in support of the logistics sector's switch to the high-end market segment. In

addition, the Administration also identified sites at Kwai Tsing and Tuen Mun West for logistics development as these sites were in close proximity to the container terminals and the airport and would further facilitate the operations of 3PLs.

18. Members commented that the Administration had set up LOGSCOUNCIL and an E-logistics Project Group under it, and had spent \$190 million in implementing the Digital Trade and Transportation Networks ("DTTN"). However, feedback from the logistics industry indicated that the DTTN system was grossly outdated. On the other hand, the main container terminal operators were not willing to share their information technology systems with 3PLs. Members asked if the Administration would consider modernizing the logistics industry.

19. The Administration acknowledged the importance of the logistics industry to the economic development of Hong Kong and said that LOGSCOUNCIL, which was chaired by the Secretary for Transport and Housing, was established as a platform to gather the industry's views. The Administration had also made considerable efforts in promoting electronic logistics.

Manpower development

20. Members enquired about the Government's manpower development plan to ensure sufficient manpower supply to keep up the efficiency of Hong Kong's logistics services. The Administration responded that it recognized the importance of nurturing talents in order to underpin the continued development of Hong Kong's logistics and maritime sectors, and would join hands with the industry in supporting manpower development. For example, there were scholarship schemes for selected programmes at tertiary institutions, such as the Master of Science programme in International Shipping and Transport Logistics offered by the Hong Kong Polytechnic University and the Master of Laws programme in Maritime and Transportation Law offered by the City University of Hong Kong.

Others

21. A member remarked at the Panel meeting on 16 October 2012 that for the purpose of planning the development of the logistics industry, the Administration should be requested to provide information on the comparison of the logistics facilities of Hong Kong and other cities in the Pearl River Delta.

Council meeting

22. At the Council meetings on 28 November 2012 and 27 November 2013, Hon Frankie YICK raised questions on measures to assist the logistics industry and tenancy arrangements for logistics sites respectively. Hyperlinks to the relevant written replies from the Administration are provided in the **Appendix**.

Latest position

23. At the Panel meeting on 22 June 2015, the Administration will brief Panel members on the latest logistics development in Hong Kong, and the relevant recommendations made in the Preliminary Feasibility Study for Container Terminal 10 at Southwest Tsing Yi as well as the Study on the Strategic Development Plan for Hong Kong Port 2030. The findings of both studies, made available by the consultants in January and October 2014 respectively, were released by the Government in December 2014.

References

24. A list of the relevant papers which are available on the Legislative Council Website (<http://www.legco.gov.hk>) is in the **Appendix**.

Council Business Division 4
Legislative Council Secretariat
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List of relevant papers

Issued by	Meeting date/ Issue date	Paper
Panel on Economic Development (formerly known as Panel on Economic Services)	7 December 2004	Informaiton paper issued by the Administration
	27 June 2011	Agenda Background brief Information paper issued by the Administration Minutes
	16 October 2012	Minutes
	28 January 2013	Agenda Minutes
	27 January 2014	Agenda Minutes
	2 February 2015	Agenda Information paper issued by the Transport and Housing Bureau Minutes
Council meeting	28 November 2012	Written reply by the Acting Secretary for Transport and Housing to a question on "Development of logistics industry in Hong Kong" raised by Hon Frankie YICK
	27 November 2013	Written reply by the Secretary for the Transport and Housing to a question on "Port back-up and logistics sites" raised by Hon Frankie YICK

Issued by	Meeting date/ Issue date	Paper
The Administration	1 December 2014 (date of release)	<u>Preliminary Feasibility Study for Container Terminal 10 at Southwest Tsing Yi</u> (available in January 2014)
		<u>Study on the Strategic Development Plan of Hong Kong Port 2030</u> (available in October 2014)